

# Innovative Development Approaches

## Achieving Local Institutional Development: PVO Co-Financing Projects in Indonesia and the Philippines



NO. 2 ▼ January 1990

### Summary

PVO co-financing projects in the Philippines and Indonesia have proved effective in building local institutions, encouraging self-reliant community development, and supporting private sector growth. The co-financing concept, initially developed in the 1970s by USAID/Indonesia's Office of Voluntary and Humanitarian Programs, provides a mechanism for Missions to work directly with private and voluntary organizations (PVOs).

USAID/Indonesia's Co-Financing 1 Project pioneered application of the PVO co-financing concept in 1974. This Mission was also the first to use grant money to fund indigenous PVOs (IPVOs). Also, USAID/Philippines' Office of Food for Peace and Voluntary Cooperation has implemented PVO co-financing projects since 1980. Both Missions have demonstrated a commitment to developing the capacity of IPVOs. The experience of USAID/Indonesia and USAID/Philippines in PVO co-financing provides valuable lessons for Missions that are considering support for grassroots-level projects.

The major achievement of the PVO co-financing projects has been in developing local institutions. IPVOs now registered with A.I.D. are qualified to provide skills training and to disburse and oversee subgrants for smaller PVOs. Registered IPVOs are now requesting a new status as equal partners with U.S. PVOs and broader recognition for their achievements. A long history of IPVO collaboration with U.S. PVOs and USAID staff underlies this success. This has included provision of skills training to IPVO staff

to strengthen their organizational capabilities, a gradual transfer of increased project management responsibilities from Missions and U.S. PVOs to IPVOs, and the ability of IPVOs to cope with the public sector-led development biases of their respective governments.

### Introduction

Increasingly, A.I.D. is working directly with PVOs in planning and implementing grassroots-level projects. By contributing to the sound growth of IPVOs, A.I.D.-funded PVO co-financing projects in Indonesia and the Philippines have provided a model that other Missions may wish to examine closely.

Projects that provide funds directly to PVOs to design and implement "subprojects" are now a well-established A.I.D. mechanism for achieving development goals at the grassroots level. PVOs registered with USAID Missions may submit grant proposals to undertake development activities. A key feature of these PVO projects is the requirement that the grantee organization contribute 25 percent of its proposed project cost from sources other than the U.S. Government. In other words, the proposed activity must be co-financed.

USAID/Indonesia pioneered the concept and application of PVO Co-Financing projects in 1974 and was the first Mission to make project grants to IPVOs through a co-financing project. This initiative became the model for comparable A.I.D. efforts elsewhere.

*The purpose of Innovative Development Approaches is to identify, describe, and assess the progress of promising, experimental approaches being tried by A.I.D. and other agencies to achieve priority developmental objectives and new policy thrusts. This series communicates the key ideas behind each innovative approach to A.I.D. missions interested in how some of their colleagues are addressing these objectives.*

Since 1980, USAID/Philippines also has used the PVO co-financing mechanism. Both Missions have demonstrated a commitment to developing the IPVOs' capacity and to increasing responsibility to local organizations with demonstrated capacity and experience.

## Benefits of the PVO Co-Financing Approach

PVO co-financing projects can provide numerous benefits, as reflected in the Indonesia and the Philippines experience:

### Programmatic

From a programmatic point of view, co-financing projects allow, under a single mechanism, diverse interventions, including microenterprise development, education and training, income generation, health improvement, and rural development. Registered PVOs may submit grant proposals for projects in any of these sectors provided the proposed activity is consistent with and contributes to the Mission's overall country strategy.

### Management

From a management point of view, PVO co-financing projects offer a flexible funding mechanism for development activities. Grants can be provided (1) to U.S. PVOs for project operations, (2) to IPVOs for project operations, (3) to U.S. PVOs for capacity building of IPVOs and for issuing subgrants to IPVOs, and (4) to larger, more experienced IPVOs (often referred to as "intermediate IPVOs") for capacity building of smaller IPVOs and for issuing subgrants.

Intermediate PVOs registered with A.I.D. can reduce the Mission management burden of monitoring many small IPVO subprojects. Rather than manage these projects directly, the Mission makes a block grant to the intermediate PVO, which, in turn, makes subgrants to smaller IPVOs for their proposed activities. Because the intermediate PVO is registered with A.I.D., it can oversee and monitor the project implementation activities of the subgrantee IPVO, which, under this arrangement, is not required to be registered with A.I.D.

### Development Impact

In terms of development impact, co-financing projects strengthen the IPVO's capability to conduct a

wide range of activities, including project development, implementation, monitoring, and evaluation as well as training for local organizations, thereby furthering A.I.D. policy objectives of working with and strengthening the private sector.

Using many local PVOs makes reaching remote or difficult-to-reach areas possible, especially in countries like Indonesia and the Philippines where the populations are geographically dispersed and socio-culturally diverse. In both Indonesia and the Philippines, the USAID Mission and host government reach many more beneficiaries than would be feasible without using the many local PVOs.

### Cost-effectiveness

Finally, PVO co-financing can provide a cost-effective means for Missions to reach a number of major development objectives, particularly where Missions can work with qualified IPVOs. For example, the funding for one expatriate to provide technical assistance is at least \$100,000 per year whereas a highly skilled and experienced IPVO employee with comparable expertise costs \$1,800 to \$3,000 per year, with a few individuals commanding \$12,000 per year. Furthermore, the higher overhead expenses of U.S. PVOs can make them less cost-effective when resources are scarce.

## PVO Participation In Co-Financing Projects—How It Works

To participate directly in co-financing projects, PVOs must first register with A.I.D. to verify their institutional ability and nonprofit status. Only then can a PVO compete for co-financing project grants through a proposal submission process.

A.I.D. registration criteria are similar in Indonesia and the Philippines and include legal registration with the Government, possession of a notarized charter and constitution, certification of the organization's not-for-profit status, certification of tax-exempt status with the host government, and evidence that the organization's activities promote development rather than religion. Also, the PVO must have audited books for the previous 3 years.

A team from the USAID Mission then assesses the PVO's level of ability in financial management and program administration. In cases where deficiencies are found, the team makes recommendations to improve financial and programmatic accountability.

Once registered with A.I.D., a PVO can submit proposals for co-financing grants. A committee of Mission technical specialists competitively reviews these proposals. The PVO must then contribute 25-percent counterpart funding in cash or in kind provided by a source other than the U.S. Government.

## Progress To Date: The Impact Of PVO Co-Financing Projects

PVO co-financing projects have been in operation for 15 years in Indonesia and 9 years in the Philippines. One of their primary objectives has been to work with the rural poor in promoting community development. Evaluations indicate that the Philippine and Indonesian co-financing projects aid the development of local institutional capacity to implement project activities and to extend benefits to targeted beneficiaries.

The following are examples of documented IPVO achievements in Indonesia:

- Development of community-based delivery services of social services
- Graduation of pre-cooperatives to the status of full cooperatives
- Community-level production and marketing promotion
- Establishment of potable water programs for low-income people, with effective operations, maintenance, and cost-recovery mechanisms
- Introduction of micro- and small-scale entrepreneurial development initiatives
- Building awareness of the need for environmental protection

Similarly, evaluators of USAID/Philippines IPVO initiatives document the following accomplishments:

- Income generation and credit programs with high repayment rates
- Highly sophisticated health and community development monitoring systems that are continuously updated and maintained by community workers
- Agricultural projects incorporating high levels of beneficiary management with sophisticated crop diversification and market strategies that have reduced the use and cost of fertilizers and pesticides
- Community mobilization programs that have successfully involved tribal groups, Muslims, and the urban and rural poor



The manufacture and production of cinva ram blocks by the beneficiaries of Pagtambayayong Foundation, Inc., the Philippines.

The PVOs, and especially the IPVOs, appear to be the only instruments that can reach the grassroots and effectively organize self-help development activities. The co-financing projects have contributed to an increase in the number of IPVOs promoting local self-reliance and to the development of IPVOs in geographically dispersed regions.

Mission-sponsored PVO training programs have been an important element in achieving impact. Also important has been a block grant mechanism whereby intermediary U.S. PVOs or IPVOs have helped strengthen existing organizations or assisted in funding new organizations. As the evaluations indicate, the most important impact of these programs to date has been in achieving greater levels of local institutional development, described in greater detail below.

## Growth and Development of Indigenous PVOs

One measure of the greater importance that USAIDs in Indonesia and the Philippines are according to local nongovernmental institutions is the increase in the number of IPVOs registered with A.I.D. Figure 1 depicts the case of Indonesia. At the beginning of the Co-Fi 1 project in 1974, there were no IPVOs registered with A.I.D. When the Co-Fi 2 project was developed in the 1980s, however, there were 20 IPVOs, more than the number of U.S. PVOs registered to work with A.I.D. in Indonesia. Figure 2 illustrates the case of the Philippines. From Co-Fi 1 to Co-Fi 2, the number of registered IPVOs increased from 24 to 79, which is the highest among USAIDs worldwide. There are more than twice as many

IPVOs as U.S. PVOs registered to receive A.I.D. grants in the Philippines.

A.I.D. is funding registered IPVOs more and more to strengthen smaller, fledgling IPVOs. In Indonesia, the intermediate IPVO Yayasan Indonesia Sejahtera (YIS) has provided staff training in planning, implementation, and evaluation for 21 IPVOs. Each year YIS trains over 500 IPVO program managers, supervisors, and field staff, with an emphasis on financial management and monitoring.

USAID/Philippines now funds 4 intermediary institutions that administer block grant funds to subgrantees. One of these grantees is the Foundation for Educational Evolution and Development (F.E.E.D.), which is owned and run by women. A.I.D. provides \$449,769 and F.E.E.D. provides \$148,424 for a 3-year project that ends in 1990. F.E.E.D. provides financial and technical assistance to a minimum of 12 IPVOs serving poor communities outside of Metro Manila. Each IPVO subproject, in turn, assists approximately 150 target beneficiary households.

IPVO development in the Philippines and Indonesia, particularly among intermediary institutions, has implications for the role of U.S. PVOs in their work with A.I.D. and IPVOs. Historically, when one compares institutional capability, cost-effective service delivery, and the ability to accomplish targeted performance objectives and goals, U.S. PVOs have a better track record in providing development services than IPVOs. But the PVO co-financing project training experience in Indonesia and the Philippines provides

evidence that IPVOs, because of their association with U.S. PVOs and Mission-sponsored training programs, can develop similar levels of competence. Thus, one may no longer assume that U.S. PVOs necessarily have a comparative advantage over their indigenous counterparts. In fact, the lower costs of working through IPVOs and their unique abilities to deal in a culturally sensitive manner with indigenous populations often make working with IPVOs in these two countries a better choice.

### Factors Underlying IPVO Success

A number of factors have contributed to the success of IPVOs in Indonesia and the Philippines. Some important factors in IPVO development may have been country specific, but the following appear to apply to the development of IPVO capability and sustainability in other USAID Missions.

**Training.** Provision of training to IPVOs in specific skill areas (such as, project development, implementation, and management) has contributed to increased local organizational capabilities. USAID/Indonesia helped to improve IPVO capability under the Co-Financing 2 Project. In September 1988, the Mission held its first Project and Grant Management Seminar for nine Indonesian PVOs (called nongovernmental organizations in Indonesia). The seminar familiarized these IPVOs with USAID organization and programs and provided information on project design, reporting, evaluation, grant management, and financial management requirements.

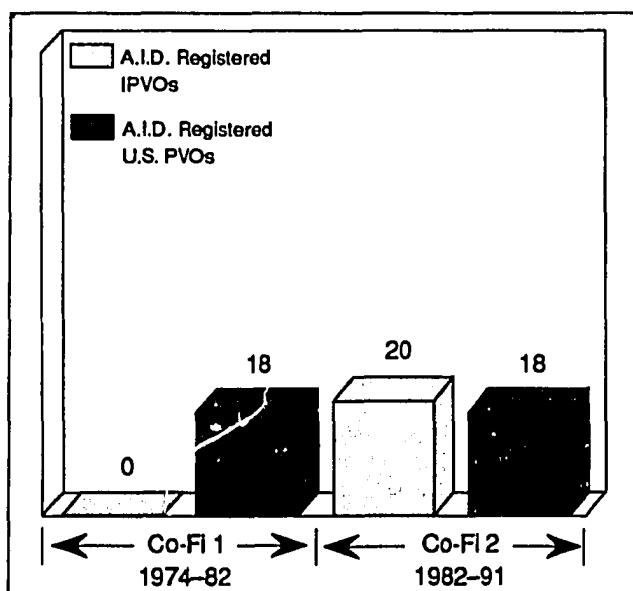


Figure 1. Indonesia—Growth of registered IPVOs.

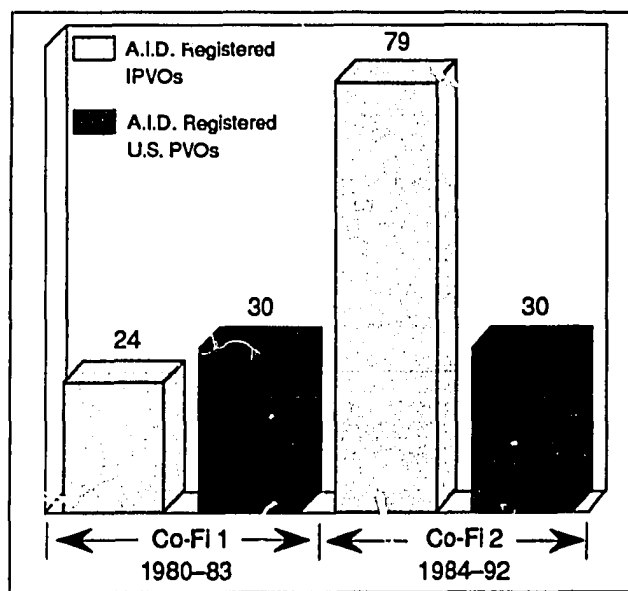


Figure 2. The Philippines—Growth of registered IPVOs.

In 1989, USAID/Indonesia's Office of Voluntary and Humanitarian Programs signed a contract with an Indonesian public accounting firm, P.T. Unisystem Utama, to assist in strengthening IPVO financial management operations. The objective of the contract was to adapt existing management systems to meet IPVO management needs and to ensure proper controls. During the first year, P.T. Unisystem Utama was working with six IPVOs; if feedback continues to be positive, the program may be repeated.

The Mission also issues *Berita Campuran*, a quarterly newsletter on U.S. PVO and IPVO activities. Input from the PVO community is strongly encouraged. Published in Bahasa and English, the newsletter provides articles dealing with such topics as evaluation findings, upcoming events, training opportunities, and publications of interest. The most recent issue provides proposal-writing guidelines.

In USAID/Philippines, the Office of Food for Peace and Voluntary Cooperation has conducted annual orientations for grantees; arranged seminars on planning, evaluation, and management subjects; and sponsored training for PVO staff members at the Asian Institute of Management. Also, the Mission has published several guidebooks and manuals to assist PVOs in project design and evaluation, budgetary and financial management reporting systems, and the writing of a general accounting plan. Further, the Mission provides consultants in design and evaluation and makes available the services of a public accounting firm to assist PVOs in establishing effective financial systems. These services have been well-received by PVOs and have had a favorable impact on operations.

**Transferring Management to Intermediate IPVOs.** The gradual transfer of project management responsibilities from the Missions and U.S. PVOs to intermediate IPVOs has provided a means of strengthening IPVO capabilities.

Budgetary allocations under USAID/Indonesia and USAID/Philippines co-financing projects portray a trend that increasingly favors grants to IPVOs over U.S. PVOs. This pattern demonstrates the commitment of these two Missions to work with local organizations. During the early stages (1974 to 1984) of the Co-Financing 1 Project in Indonesia, almost all funds were given to U.S. PVOs, but in 1985 that trend began to reverse. Direct funding to intermediate IPVOs has been increasing steadily, now constituting almost half of the total co-financing program portfolio. The trend is even more obvious in the



Fish-rearing methodology by the impounding net system is introduced to villagers on Lake Toba, North Sumatra, under a subproject run by Yayasan Indonesia Sejahtera (Foundation for Indonesian Well-being).

Philippines. Over two-thirds of the 38 grants made during the 1984 to 1986 period of the USAID/Philippines Co-Financing 2 project went to IPVOs. In 1987, U.S. PVOs received \$369,409 in grants, compared with \$1,783,523 received by IPVOs. (Total funding levels for the co-financing projects of USAID/Indonesia and USAID/Philippines are portrayed in Figures 3 and 4.)

**Collaborating with Government.** IPVO sensitivity to working collaboratively with the government contributes to governmental acceptance of IPVOs.

The emphasis in IPVO projects on active community organization and participation could create friction with the government; however, successful IPVOs have learned to work collaboratively with government officials as well as with targeted beneficiary populations. These organizations keep the government fully informed of ongoing and planned activities and give officials public credit for project successes. This collaboration has led to much greater acceptance of private sector initiatives by the Indonesian and Filipino governments and has been an important factor in ensuring the continued existence of these organizations. This may be an important principle to follow in developing a sustainable IPVO community in other USAID countries where there is a climate of strong public sector control.

**Funding Project Innovations.** Mission willingness to fund innovations in project design and implementation during the early stages of IPVO development has provided an important learning opportunity and has led to some effective grassroots development strategies.

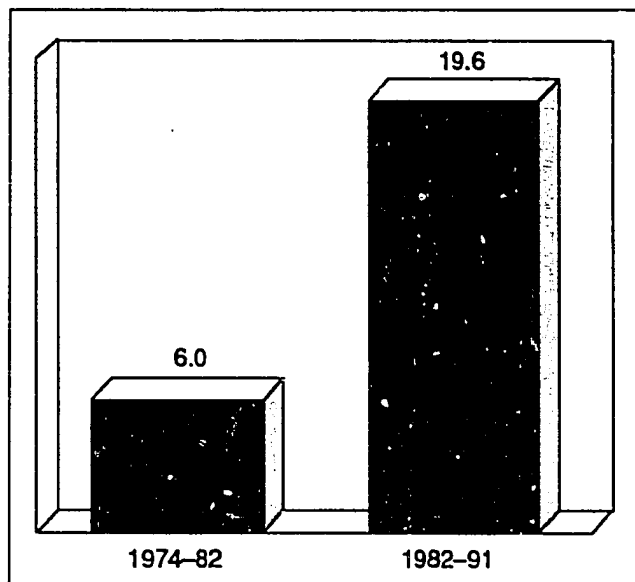


Figure 3. Total funding levels (in millions of U.S. Dollars) for USAID/Indonesia co-financing projects.

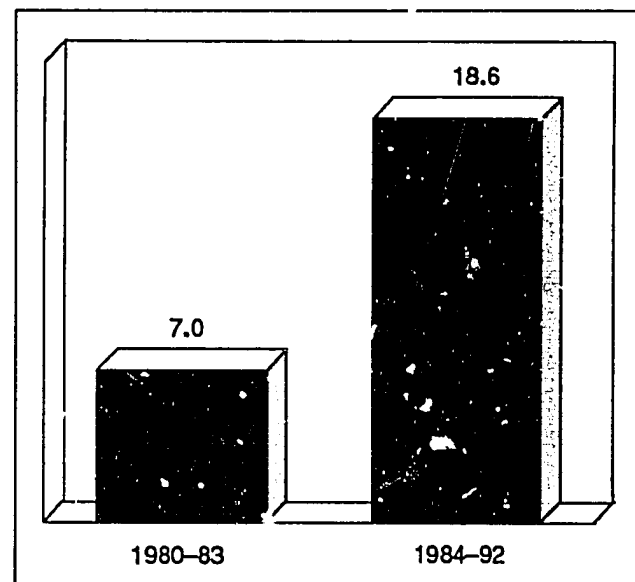


Figure 4. Total funding levels (in millions of U.S. Dollars) for USAID/Philippines co-financing projects.

From 1982 to 1987, USAID/Indonesia encouraged experimental efforts by IPVOs. There were instances of IPVO failures, but evaluators of the Co-Financing 2 Project concluded that failures were to be expected and should be viewed as contributing to a long-term learning process. One successful innovation was a community development approach based on local self-reliance groups. The implementing IPVO (YIS) experimented to determine the most effective community development methods; the learning that occurred would not have been possible without the funding made possible by the Co-Financing 2 Project. USAID/Indonesia's willingness to experiment, at the risk of failure, provided an independent learning opportunity for IPVOs to see what works, and just as important, what does not.

## Continuing Issues

### The Need for a Changed Relationship Between IPVOs and U.S. PVOs

IPVOs want recognition for their abilities and are increasingly asking for a change in their previous client-recipient relationships with U.S. PVOs. Recent interviews with IPVOs in Indonesia and the Philippines make clear that they appreciate the education and assistance received from U.S. PVOs over the past decade or so. However, to have effective and positive relationships both now and in the future, with more development impact, IPVOs seek a

different kind of assistance. This attitude and the demonstrated capability of IPVOs are evidence of the success of U.S. PVOs in building local institutions.

IPVOs have indicated through the interviews that they would welcome the following kinds of assistance:

- Specific types of short-term technical assistance to be defined by the IPVO recipient on a need and demand basis
- Linkages with U.S. PVO marketing research and outlets to increase the benefits of IPVO export-led projects for income and employment generation initiatives
- Collaborative production of cost-efficient, high quality multimedia training materials for classroom teaching and public education campaigns
- Staff exchanges and on-site studies to provide mutually beneficial human resources to both IPVOs and U.S. PVOs
- Active collaboration in implementing development education campaigns on a wide range of issues, including the role that governments and citizens can play in supporting alternative approaches to development objectives

### Issues Affecting an Increased IPVO Role in Co-Financing Projects

If Missions are to assist the shift in the relationship between U.S. PVOs and IPVOs, project responsibility

must be gradually transferred to IPVOs. USAID/Indonesia and USAID/Philippines consider that enhancing the effectiveness and sustainability of IPVOs is best served by expanding their role in resource transfer and monitoring. Both Missions plan to expand the number of IPVOs eligible to receive A.I.D. funding and to increase the size of grants administered by intermediate IPVOs providing outreach to subgrantees. The average grant size is now \$250,000; USAID/Philippines plans to double that amount.

Three issues, however, influence achieving these goals for increased IPVO responsibility: (1) financial ability to absorb and manage larger levels of funding, (2) the ability to monitor and evaluate, and (3) the ability to work with local organizations to achieve development objectives. Many evaluations question the sustainability of IPVO subprojects and their actual impact on beneficiaries. The three issues are discussed below.

The first issue concerns whether intermediary IPVOs can capably administer high levels of funding and provide adequate management oversight to ensure accountability. The Mission staff and IPVO leaders that were interviewed expressed confidence that intermediary Filipino IPVOs (which have been in operation much longer than their counterparts in Indonesia) have the ability to absorb larger funding levels without difficulty, although they identified a *rapid* expansion of programmatic scale as a potential risk to these institutions. There is less evidence that intermediate IPVOs in Indonesia have developed the financial management skills needed to ensure accountability and to administer an expanded program of block grants to subgrantees. In any case, the pressure within A.I.D. to obligate large amounts of funding quickly could rapidly overwhelm the current abilities of an IPVO. Thus, an incremental approach to committing funds to IPVOs for block grants to subgrantees would be most judicious.

The second issue concerns how well an intermediate IPVO can monitor and evaluate the project activities of a significantly expanded number of smaller IPVOs. The small size of USAID PVO office staffs in the Philippines and Indonesia, working under conditions of severe budget constraints, affects their ability to monitor effectively an expanded IPVO workload. Intermediate IPVOs would have to develop the abilities of subgrantees to provide the required monitoring data on a reliable basis. Recent interviews and observations of numerous A.I.D.-assisted IPVOs in both countries demonstrate a mixed ability of IPVOs to adequately perform these functions. Both

missions are addressing this issue, in part, through the technical training initiatives described above.

The third issue concerns the impact level of IPVO subprojects on beneficiaries. In microenterprise and income-generating projects, the amount of credit provided to beneficiaries is often too small to develop a going enterprise. Also, IPVOs often lack the technical ability to address such factors as product market demand and product marketing systems. In the health and education sectors, recurrent costs issues for project services have not always been well addressed. These examples lead to questions of benefit sustainability. The degree of effectiveness and impact undoubtedly differs among the population of small IPVOs engaged in development projects. But, clearly, more assistance is needed to help less experienced IPVOs develop and implement realistic project activities that will bring sustainable benefits to local populations.

## The Future Of PVO Co-Financing Projects

These PVO co-financing projects clearly demonstrate an effective approach for reaching a number of A.I.D. goals and objectives. Evaluators of the Indonesian and Filipino co-financing projects have offered several suggestions to build on IPVO successes and to address the needs for further strengthening IPVO abilities. These suggestions provide guidance on how to achieve a transfer of reliance from U.S. PVOs to IPVOs as development partners. Several recommendations have wide applicability for USAID Missions seeking to develop IPVOs.

- *Continue creative training exercises to increase IPVO skills in financial management and project monitoring and evaluation.* Such training needs to be spread to more of the existing and potential intermediate IPVOs. Training in needs assessment and project development may also be required among smaller IPVOs to increase the impact of subprojects on beneficiary populations. Specific training skills can be provided by Missions, U.S. PVOs, or large IPVOs, as appropriate, to address identified needs.
- *Allow creativity and experimentation in the design and implementation of IPVO initiatives.* Experimentation can lead to more culturally appropriate and cost-effective strategies which may, in turn, lead to greater beneficiary participation and greater sustainability of desirable development outcomes.
- *Consider encouraging more IPVOs with established track records to act as sponsors for newer, less known,*

smaller IPVOs. An effective way to accomplish this is to build in a reward system for those IPVOs who sponsor new recruits that are found to be reliable and productive after being registered. One suggested reward is to provide study trips to visit IPVOs outside the country.

- *Streamline all IPVO required monitoring, reporting and registration forms, keeping information to the minimum required for responsible decision making.* Often certain beneficiary target groups have been discriminated against, exploited or neglected because of isolation or cultural insulation. Streamlining requirements and procedures can make it easier for all potential beneficiaries to compete for scarce project resources. For example, USAID/Philippines established a separate standard for Muslim IPVO registration to increase the participation of the Muslim population in development activities.
- *Maximize collaborative programming between U.S. PVOs and IPVOs in ways that reflect the current level of IPVO development.* In countries like Indonesia and the Philippines, IPVOs have made it clear that they can take over many U.S. PVO functions. USAID Missions can help bring this desire to fruition by providing a framework for greater dialogue and collaboration between U.S. PVOs and IPVOs. For example, recent interviews with PVOs indicated that there is tremendous potential for collaboration around shared advocacy concerns and a wide range of development education priorities. In Missions where co-financing projects

are newer and the indigenous private sector is less developed, U.S. PVOs can still play a very large and important role in IPVO training and development.

## Conclusions

PVO project evaluations have shown that the co-financing concept is a cost-effective means of assisting IPVOs in building local organizational abilities and achieving development objectives.

However, replication of the model followed by USAID/Indonesia and USAID/Philippines in facilitating IPVO development should proceed cautiously. The successes noted to date are partly the result of a long history of relationships between the two USAID Missions and the PVO community. Clearly, achieving high levels of local institutional development is a long-term process. Yet, the Mission-sponsored training, activities, and the gradual transfer of responsibilities from U.S. PVOs to IPVOs are ideas that can be implemented anywhere.

The need to restructure working relationships between U.S. PVOs and IPVOs and the nature of that restructuring will vary from country to country. The IPVO community will make it clear when that time has come, and their message should be heeded.

*This report was prepared by Patricia Vondal under a Center for Development Information and Evaluation contract with LABAT-ANDERSON Incorporated. It is based on a report by Jim Cotter, "USAID-Financed PVO Co-Financing Projects in the Philippines and Indonesia: Reshaping the Terms of PVO Collaboration," funded by AID/ANE/TR/HR in 1988. Other sources of information were the USAID/Philippines PVO Co-Financing 2 Project mid-term evaluation, 1986; the USAID/Indonesia PVO Co-Financing 2 Project final evaluation, 1987; and the USAID/Indonesia newsletter, Berita Campuran (Nos. 1-3, 1988 and 1989). Photographs from USAID/Indonesia and USAID/Philippines. The views and interpretations expressed herein are those of the author and should not be attributed to the Agency for International Development. Comments or inquiries about this summary may be sent to the Center for Development Information and Evaluation, Bureau for Program and Policy Coordination, Agency for International Development, Washington, DC 20523-1802.*